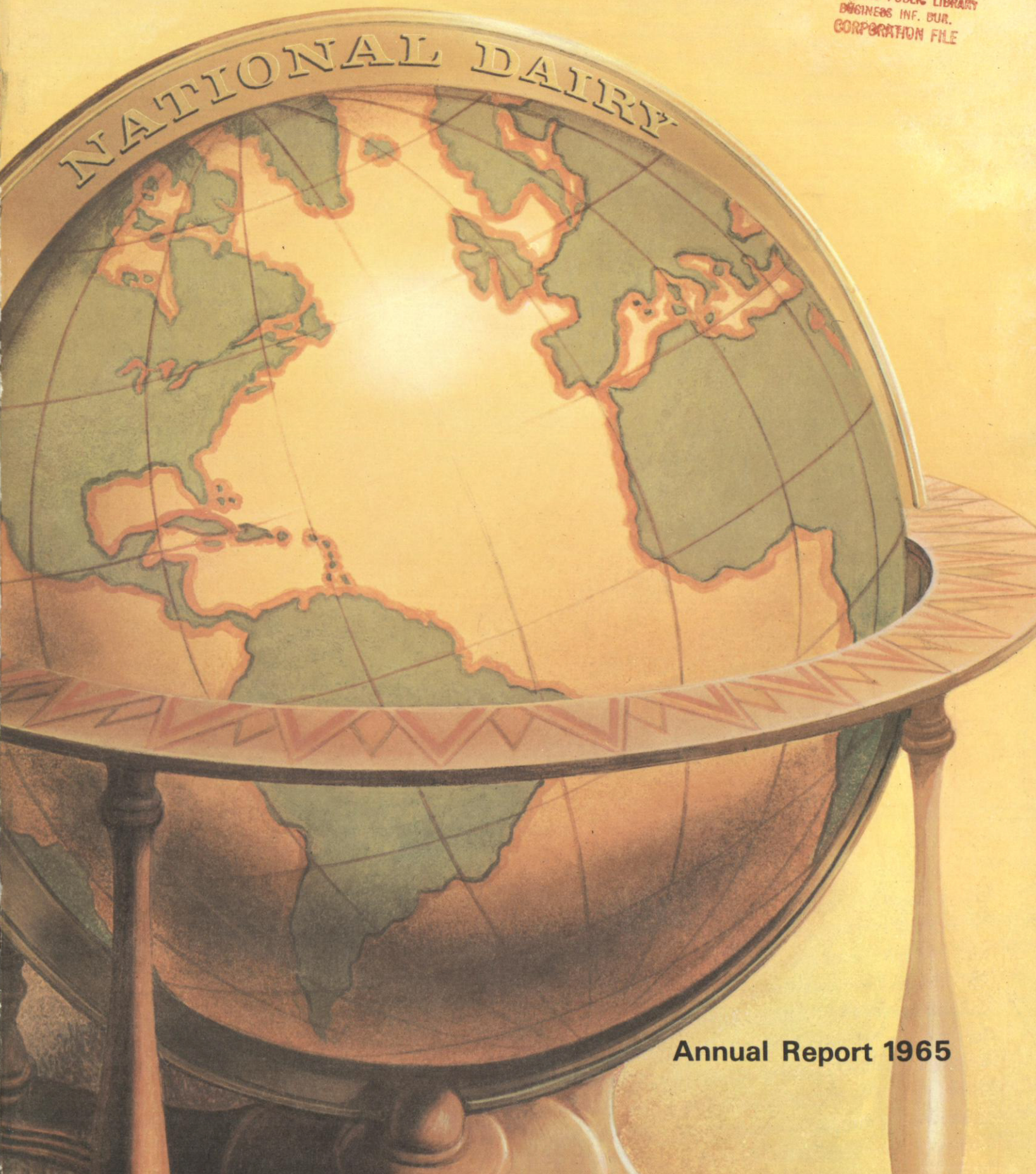


NATIONAL DAIRY PRODUCTS CORPORATION

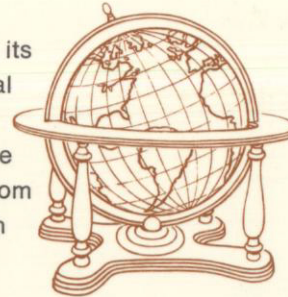
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CORPORATION FILE



Annual Report 1965

THE COVER

National Dairy circles the globe with its products and is today an international food company supplying processed, packaged food products in nearly one hundred countries in the free world from plants in North, Central and South America, Europe, Australia and the Far East.



CONTENTS

	<i>Pages</i>
Highlights of Operations	1
Board of Directors	2
Letter to Stockholders	3
Report	4-15
Consolidated Balance Sheets	16-17
Consolidated Statements of Income	
Consolidated Statements of Retained Earnings....	18
Consolidated Statements of Source and Application of Funds	19
Notes to Consolidated Financial Statements	19-20
Auditors' Opinion	20
Foreign Subsidiaries, Other than Canadian— Statements of Income	
Statements of Financial Position	21
Ten Year Summary	22-23
Officers and Operating Committee	24
Operating Divisions	Inside back cover

ANNUAL MEETING

Stockholders of National Dairy Products Corporation are cordially invited to our Annual Meeting which will take place on Thursday, April 21, 1966, at 11 a.m. at the Hotel Commodore, 42nd Street at Lexington Avenue, New York City.

HIGHLIGHTS OF OPERATIONS

	1965	1964
Sales	\$2,017,280,000	\$1,919,945,000
Earnings	\$ 69,902,000	\$ 63,784,000
Per Share	\$4.83	\$4.40
Per Dollar of Sales	3.47%	3.32%
Federal and Foreign Taxes on Income	\$ 59,155,000	\$ 60,167,000
Per Share	\$4.09	\$4.15
Dividends to Stockholders	\$ 37,664,000	\$ 34,729,000
Per Share	\$2.60	\$2.40
Capital Expenditures	\$ 37,767,000	\$ 45,450,000
Depreciation	\$ 38,222,000	\$ 37,897,000
Working Capital	\$ 309,001,000	\$ 296,615,000
Stockholders' Equity	\$ 566,239,000	\$ 538,638,000
Number of Stockholders	68,762	69,073

BOARD OF DIRECTORS

WILLIAM O. BEERS

Vice President
President Kraft Foods Division, Chicago

RICHARD C. BOND

*President John Wanamaker Philadelphia, Inc.
Philadelphia*

EDGAR N. BRAWNER

*General Manager Washington District
Sealtest Foods Division, Washington, D.C.*

HENRY W. BREYER, JR.

*President Breyer Corporation, Investments
Philadelphia*

PAUL C. CABOT

*Chairman State Street Investment Corporation
Boston*

GORDON EDWARDS

President

JOHN R. EDWARDS

*Vice President
President Sealtest Foods Division, New York*

HERBERT HUMPHREYS

*Chairman HumKo Products Division
Memphis*

BARRY T. LEITHEAD

*President Cluett, Peabody & Co., Inc.
New York*

DAVID L. LUKE

*Former Chairman West Virginia Pulp & Paper Co.
New York*

WILLIAM E. NUESSELE

Vice President

PHILIP D. REED

*Former Chairman General Electric Co.
New York*

DR. C. R. ROBERTS

*Former Vice President
New York*

ROBERT L. TALBOT

Vice President

EMANUEL M. TERNER

*President Metro Glass Division
Jersey City*

WALTER N. THAYER

*President Whitney Communications Corporation
New York*

JOHN L. WEINBERG

*Partner Goldman, Sachs & Co.
New York*

J. HUBER WETENHALL

Chairman of the Board

EXECUTIVE COMMITTEE

J. HUBER WETENHALL, *Chairman*

HENRY W. BREYER, Jr.

PAUL C. CABOT

GORDON EDWARDS

DAVID L. LUKE

PHILIP D. REED

DR. C. R. ROBERTS

FINANCE COMMITTEE

ROBERT L. TALBOT, *Chairman*

RICHARD C. BOND

HENRY W. BREYER, Jr.

PAUL C. CABOT

GORDON EDWARDS

PHILIP D. REED

DR. C. R. ROBERTS

WALTER N. THAYER

JOHN L. WEINBERG

J. HUBER WETENHALL

TO OUR STOCKHOLDERS

Nineteen sixty-five was a memorable year for National Dairy, as earnings rose to the highest level in the Company's history and world-wide sales exceeded two billion dollars for the first time. We passed this milestone in the growth of our business by an increase of almost ninety-eight million dollars in sales in this and the many other countries in which we manufacture and distribute our broad range of food products.

Sales of that magnitude confirm National Dairy's position as a great international food company and demonstrate certain basic strengths. Not the least of these is the strong consumer franchise which our well-known brands enjoy in world markets and which is maintained by the consistently high quality and good value that is built into our products. Another lies in our ability through constant research and development to supplement our established products by the regular introduction of new and improved food products that cater to the ever changing tastes and desires of our customers. But, perhaps, even more important is the strength that is inherent in one of the largest marketing organizations in the food industry. Using the experience gained through the years, this organization employs every modern technique of advertising, merchandising and promotion to assist the merchants in thousands of retail stores around the world to speed our products along to the consumer. Taken together these are the strengths that have built our business and these are the strengths that will continue to build it.

Nineteen sixty-five was a memorable year, and it was also a constructive one as we continued our program of reinvestment in plant and equipment to provide more and better facilities in a never ending search for greater efficiencies and lower costs.

It was also a year during which management was strengthened at all levels throughout our world-wide operations as many of our people moved on to more important responsibilities and in every case gave a good account of themselves.

The results for 1965 were made possible only through the loyalty and the ability of the people of National Dairy. We are most grateful to them for their contribution to a successful year. To our suppliers and to our customers, we are most appreciative for their cooperation. And to our stockholders, we are particularly indebted for their interest and encouragement in our efforts to build a better National Dairy.



Gordon Edwards
President

John H. ...
Chairman

February 24, 1966

SALES

Nineteen sixty-five world-wide sales exceeded two billion dollars for the first time, marking the eleventh consecutive year in which sales reached new highs. The total from all our operations for the year amounted to \$2,017,280,000, an increase of \$97,335,000 or 5% over 1964.

This growth in sales reflects primarily a substantial increase in the physical volume of our many lines of food products that were processed and distributed through regular trade channels in many countries around the world. During the year, our operating Divisions and international Subsidiaries broadened the markets for their products through effective merchandising, and new plants and equipment enabled us to meet our customers' requirements promptly and efficiently. These were important factors contributing to the record sales of 1965.

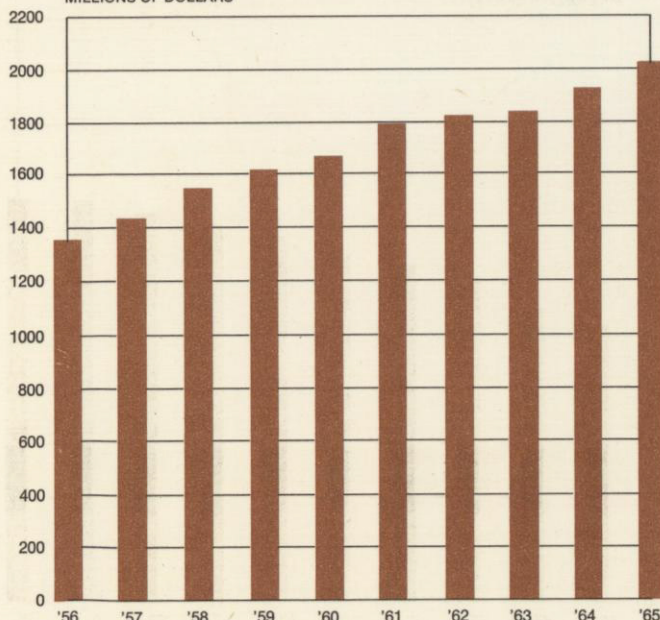
EARNINGS

Earnings for the year increased to \$69,902,000, the highest after-tax earnings in the Company's history and \$6,118,000 or 9.6% over the record made in 1964. On a per share basis, earnings were 43¢ higher or \$4.83 as against \$4.40 per share.

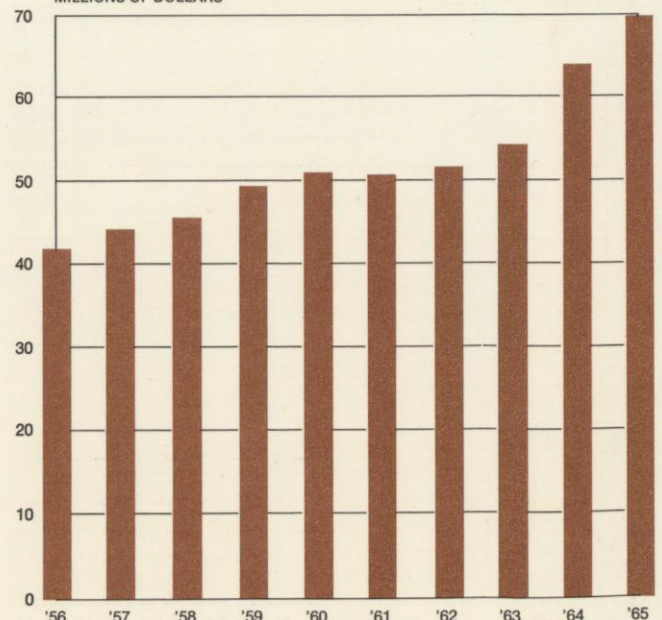
Profits before income taxes were also at a new peak of \$129,057,000. Income taxes paid in the many countries in which we do business were \$59,155,000, while total taxes—income, real estate, franchise, sales, property and others—amounted to \$82,636,000, equivalent to \$5.71 per share of common stock outstanding.

In achieving these record earnings, we benefited from the increased sales volume, growth in higher margin products, operating economies flowing from our continuing capital expenditures and a reduction in income tax rates.

TEN YEAR SALES
MILLIONS OF DOLLARS



TEN YEAR EARNINGS
MILLIONS OF DOLLARS



DIVIDENDS

In 1965, stockholders received dividend payments amounting to a record total of \$37,664,000 as compared with \$34,729,000 paid in the prior year. Payments were made at the rate of \$2.60 per share for the year, which was 20¢ above the \$2.40 per share paid in 1964. On February 3, 1966, the Board of Directors authorized an increase from 65¢ to 70¢ a share in the dividend payable March 10, 1966, and proposed a two-for-one stock split, with an accompanying increase in the authorized common stock from 16,000,000 to 40,000,000 shares, and a reduction in par value from \$5.00 to \$2.50 per share, which will be submitted to stockholders for approval at the Annual Meeting on April 21, 1966. Residents of every state and of more than 45 countries were numbered among the 68,000 registered owners of the Company's stock at the close of 1965, including nearly 3,000 institutional investors, such as pension and mutual funds, banks, universities, foundations and religious and charitable organizations.

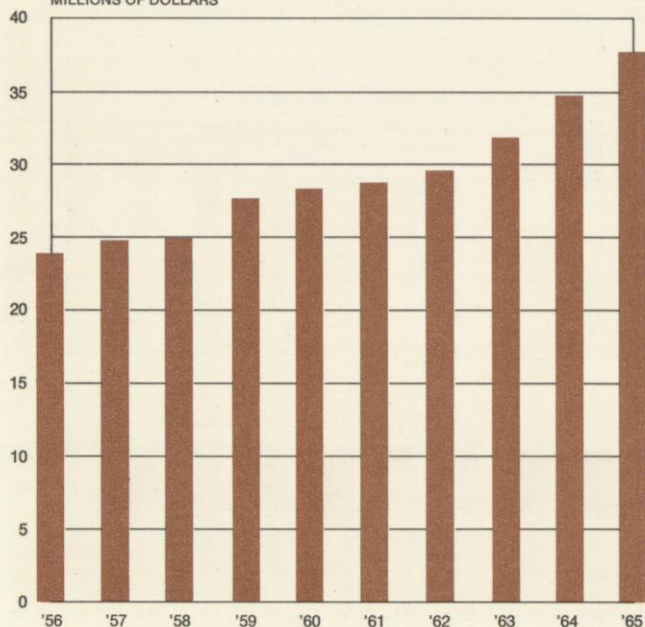
FINANCIAL POSITION

At the year end, the Company's financial statements reflected a strong position with working capital increasing for the eighth consecutive year and rising by \$12,386,000 to \$309,001,000. Total assets amounted to \$852,652,000, an increase of \$28,023,000 over the prior year. After deducting the cost of 80,900 shares of treasury stock, stockholders' equity amounted to \$566,239,000 or \$39.13 per share as compared to \$37.16 per share in 1964. Excluding treasury stock, there were 14,468,030 shares outstanding as against 14,494,087 shares at the end of 1964.

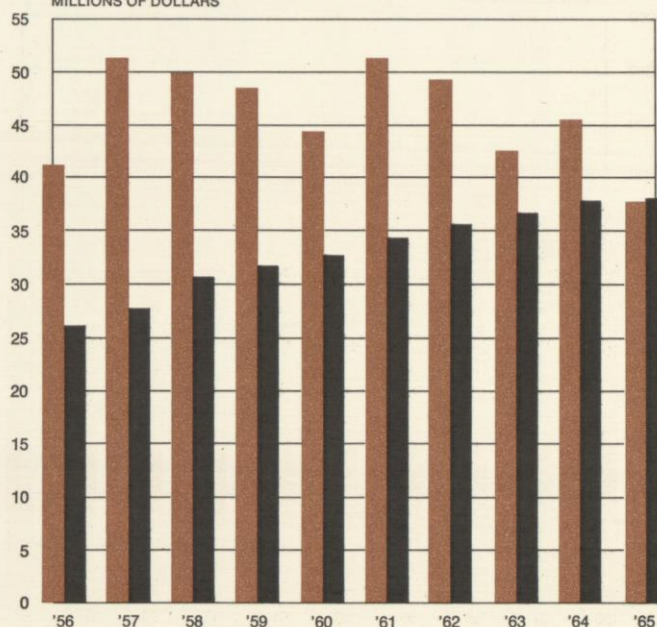
CAPITAL EXPENDITURES

As the volume of the Company's business has increased from year to year, our manufacturing, distributing and research facilities have also been improved and enlarged throughout our world-wide operations to provide more and better products and services for our

TEN YEAR DIVIDENDS
MILLIONS OF DOLLARS



CAPITAL EXPENDITURES
DEPRECIATION
MILLIONS OF DOLLARS



customers. In continuing that program, expenditures of \$37,800,000 were incurred in 1965, with a larger amount anticipated for 1966, as a capital budget of nearly \$52,000,000 has been approved by the Board of Directors.

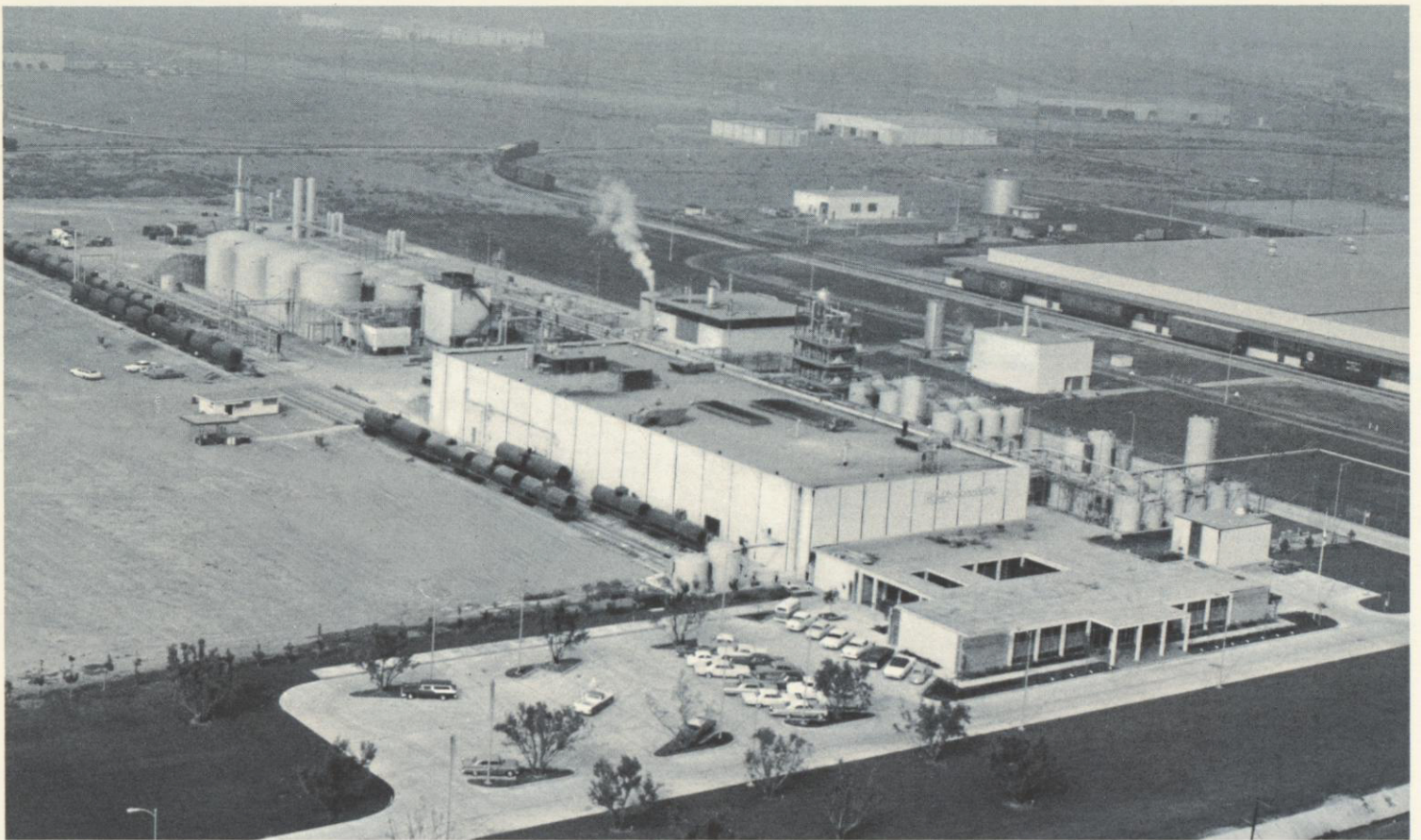
EXPANSION OF FACILITIES

New processing plants and distributing branches for the milk and ice cream business of the Sealtest Foods Division went into operation from Puerto Rico to Canada in 1965. In the southeast United States, a fluid milk and dairy products plant was built at Asheville, N.C., to increase our capacity to serve that area and adjacent markets in North and South Carolina. A new plant is in the early stages of construction at Miami, Fla., and when completed will process milk and other dairy products for the growing markets in that area. In Puerto Rico, the new ice cream plant near San Juan began production of a complete line of Sealtest ice cream products for distribution in Puerto Rico and Caribbean markets. A distribution branch was built at Hamilton, Ontario, Canada, to handle dairy products supplied to customers there under the Sealtest and Dominion Dairies brands. In New England, the latest in a series of ice cream distributing branches was completed at East Williston, Vt., while construction of another was started at West Lebanon, N.H., as part of the distribution system for the world's largest ice cream manufacturing plant opened the previous year in Framingham, Mass. Other projects provided additional storage facilities for the Breyer ice cream plant in Philadelphia, Pa., and for Sealtest plants in other cities.

In the Kraft Foods Division, new production facilities were added at many locations to meet the steadily growing demand for its wide variety of cheese products, salad products, confections and other processed, packaged foods. Further improvement was made in the extensive distribution network for Kraft products in the United States. In that program, which has involved the construction of thirteen new distribution centers in the last few years, an efficient system has been developed which now comprises 45 distribution centers strategically located to provide service, promptly and economically, to grocery, institutional and industrial customers.

In the International operations managed by our Kraft Foods Division, facilities were improved and enlarged to handle the growth of business in other countries. In Australia, the large cheese plant under construction in the Heytesbury district of western Victoria was nearing completion and is expected to begin production early in 1966. This new plant will substantially increase the varieties of natural cheeses manufactured for the Australian markets. At the Port Melbourne, Victoria, plant additional production lines were installed for two highly popular local products, Bonox, a beef flavoring extract and Vegemite, a concentrated yeast extract, while at Scottsdale, Tasmania, new equipment was added for processing potato products and frozen vegetables.

New cheese processing equipment was installed in several West German plants; vegetable oil and other manufacturing facilities were



Located at Buena Park, Calif., this new highly automated plant began production of vegetable oils and shortening early in 1965 for our HumKo Products Division.

Opened in 1965, this plant at Asheville, N.C., is an example of the type of modern Sealtest dairy products plants being built in a number of markets.



increased in Great Britain and equipment for the production of salad dressings was purchased for the Philippines plant.

In the HumKo Products Division, a large, new vegetable oil refinery incorporating the latest technological improvements, went into production early in 1965 at Buena Park, near Los Angeles, Calif., and, as the year advanced, processed increasing volumes of edible oil and shortening products for customers in Western states. In the HumKo chemical operation, new facilities were added for the manufacture of glycerine and fatty acids, while at Norwich, N.Y., additional equipment was installed to meet the growing demand for the specialty products made by the Sheffield Chemical operation of Sealtest Foods.

PRODUCT DEVELOPMENT

Excellent progress was made in 1965 in marketing our many lines of food products in greater variety and in more convenient form for consumers and in providing additional products for institutional and industrial use. Again, the scientific and technical staffs at the Company's modern Research Center working with the production and marketing specialists in the operating Divisions, developed better processes and better packages and an impressive list of new and improved products. Of these, some have now gone into national distribution, some into regional markets, and some are being tested in selected markets in the United States and in other countries.

Among the new items added to the wide range of Kraft cheese products were a new spicy flavor of Cheez Whiz, which was introduced in some regional markets; Kraft American Singles (a package of sliced cheese with each slice separately wrapped) and a new flavor of whipped cream cheese, giving consumers a choice of nine varieties in this line. A new soft margarine, Kraft's "Soft Parkay," in golden colored aluminum cups for table service appeared in test markets, supplementing its whipped margarine which was developed through research several years ago. Chewy Toffee, the latest in the great variety of Kraft's confections, was introduced nationally, while test marketing of two new candy bars, Kraft Brittle bar and Kraft Almond Toffee, was extended to additional cities. Three more dry sauce mixes—Sour Cream sauce mix, Cheddar Cheese sauce mix and Italian Style Spaghetti sauce mix—were placed in test markets. Kraft Mustard in a new 8 oz. plastic squeeze bottle was marketed nationally while other products which appeared in improved containers included margarine, cooking oil and jellies and preserves.

In the Sealtest Foods Division, new featured-flavors of ice cream were regularly developed and marketed with satisfying results. Sealtest

Salad Secret and Imperial Italian Dressings, the newest of Kraft's pourable dressings, were introduced in selected United States markets late in 1965. Many other varieties are in distribution throughout the United States and in countries overseas.



Checkerboard ice cream, a popular choice since its highly successful introduction the year before, appeared in new two-flavor blends and also for the first time in a three-flavor combination. Sack O' Sundaes, a six-pack plastic package containing several kinds of frozen novelties also proved popular. For weight-conscious consumers a lower calorie egg nog, as well as ice milk, was marketed under the new "Light 'N Lively" trademark. A new cottage cheese, Sealtest's Peach/Pineapple Creamed Cottage Cheese, a nutritious and appetizing item for the family menu, was also added to the line.

New items in the large and varied list of food products handled by the Kraft Foods Division for restaurant, institutional and other food service customers included four varieties of Kraft's Quick Frost Frosting mixes; three concentrated non-refrigerated drink bases; three types of rice—brown, enriched and light; two styles of clam chowder; chopped clams and clam juice; two types of tuna fish; and tartar sauce in squeeze-pack individual servings.

Kraft products familiar to consumers in the United States were introduced for the first time in other countries, including Miracle Whip in Venezuela and the Philippines; several pourable salad dressings in Australia and individual-portion size containers of jams and jellies in West Germany. Also in West Germany, a new pizza was added to our packaged dinner line and new packages were developed to enhance the appeal of Knackebrot crisp breads. In Great Britain, Tomato Chutney, a popular condiment, appeared in a new container. Double Gloucester, Lancashire, Red Leicester and Derby were among the natural cheeses offered in new package sizes for further consumer convenience and several new shortenings and mixes were marketed in England for the catering and bakery trades. In Canada, a number of new institutional products were introduced for the expanding restaurant and food service business, including fruit-pie fillings, soup and gravy bases, ketchup and chowders, while other items for consumer markets, such as marmalades, honey, salad dressings and margarine, appeared in new packages. In Australia, new varieties of snack cheeses, cheese slices and grated cheese were marketed and the line of prepared dinners was expanded. In Venezuela, Philadelphia Brand Cream Cheese, Cheez Whiz and DeLuxe Cheese Slices were produced for the first time in our new plant in that country.

The HumKo Products Division further developed the line of vegetable oil and shortening products it markets to the confectionery, baking and other food processors. In its chemical business a number of fatty chemical specialties were developed and marketed during the year including new long-chain fatty acids, methyl esters, amides and amines all of which have a wide range of application in many industries.

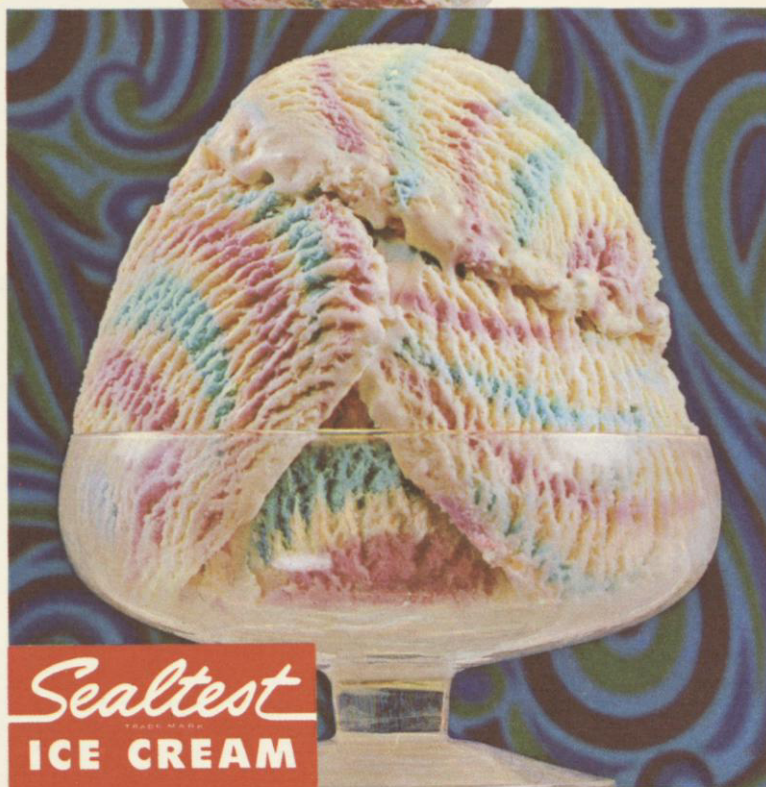
Full-page newspaper advertisements in brilliant Hi-Fi color are promoting the sale of Sealtest dairy products such as the colorful, new "Crazy Vanilla" ice cream pictured on the opposite page.

NEW Crazy Vanilla

Crazy Vanilla looks like crazy because it has red and blue stripes leaping all over the place. But it tastes like vanilla because that's what it is—vanilla ice cream. It's the coolest, craziest flavor ever. And who else but Sealtest could bring you this whacky treat? Start swinging. Pick up on this wild flavor today. Man, like it's the craziest!



DON'T LET
THE CRAZY STRIPES
FOOL YOU.
THEY'RE
VANILLA
TOO!



NEW Crazy Vanilla



Crazy Vanilla looks like crazy because it has red and blue stripes leaping all over the place. But it tastes like vanilla because that's what it is—vanilla ice cream. It's the coolest, craziest flavor ever. And who else but Sealtest could bring you this whacky treat? Start swinging. Pick up on this wild flavor today. Man, like it's the craziest!

DON'T LET





MARKETING

Marketing programs of increased scope and variety were used during the year to support the introduction of new products and promote the sale of our broad range of established products in markets around the world. The full range of media—television, radio, newspapers, magazines and trade journals—was again employed and expanded in order to keep our brand names constantly before the public. Full color was used on a larger scale than ever before both in print and in television to show more vividly the many appetizing and attractive uses of our food products.

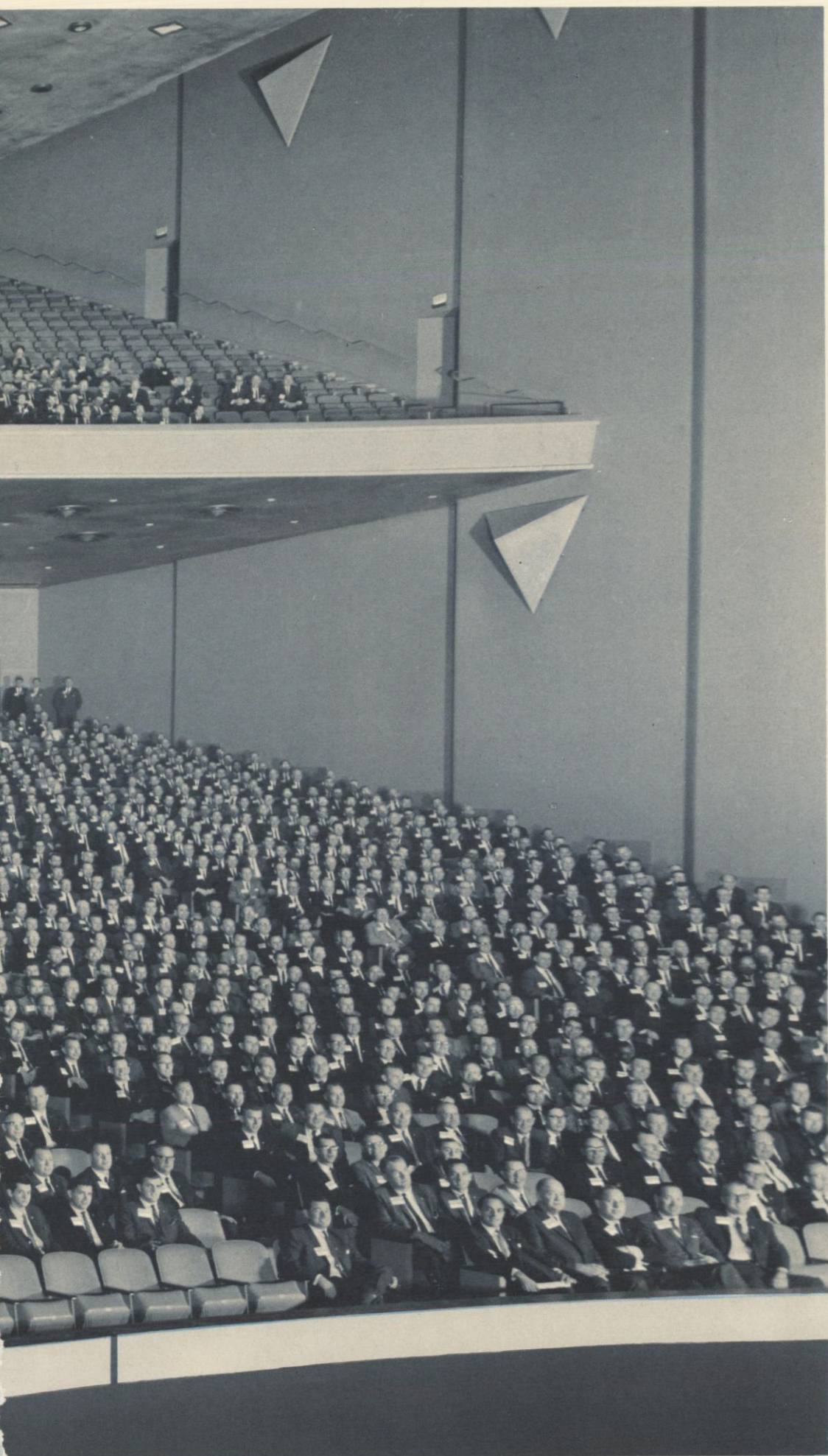
One of the major resources in the Company's marketing operations is the large, experienced sales forces that work with our customers in all fields. The dimensions of one of these organizations is indicated by the photograph of a Kraft Foods' meeting on the preceding pages. On that occasion the Kraft 1966 merchandising, advertising and promotion program was presented to an enthusiastic and appreciative audience made up of the entire United States and Canadian sales force together with representatives from our operations in many other countries.

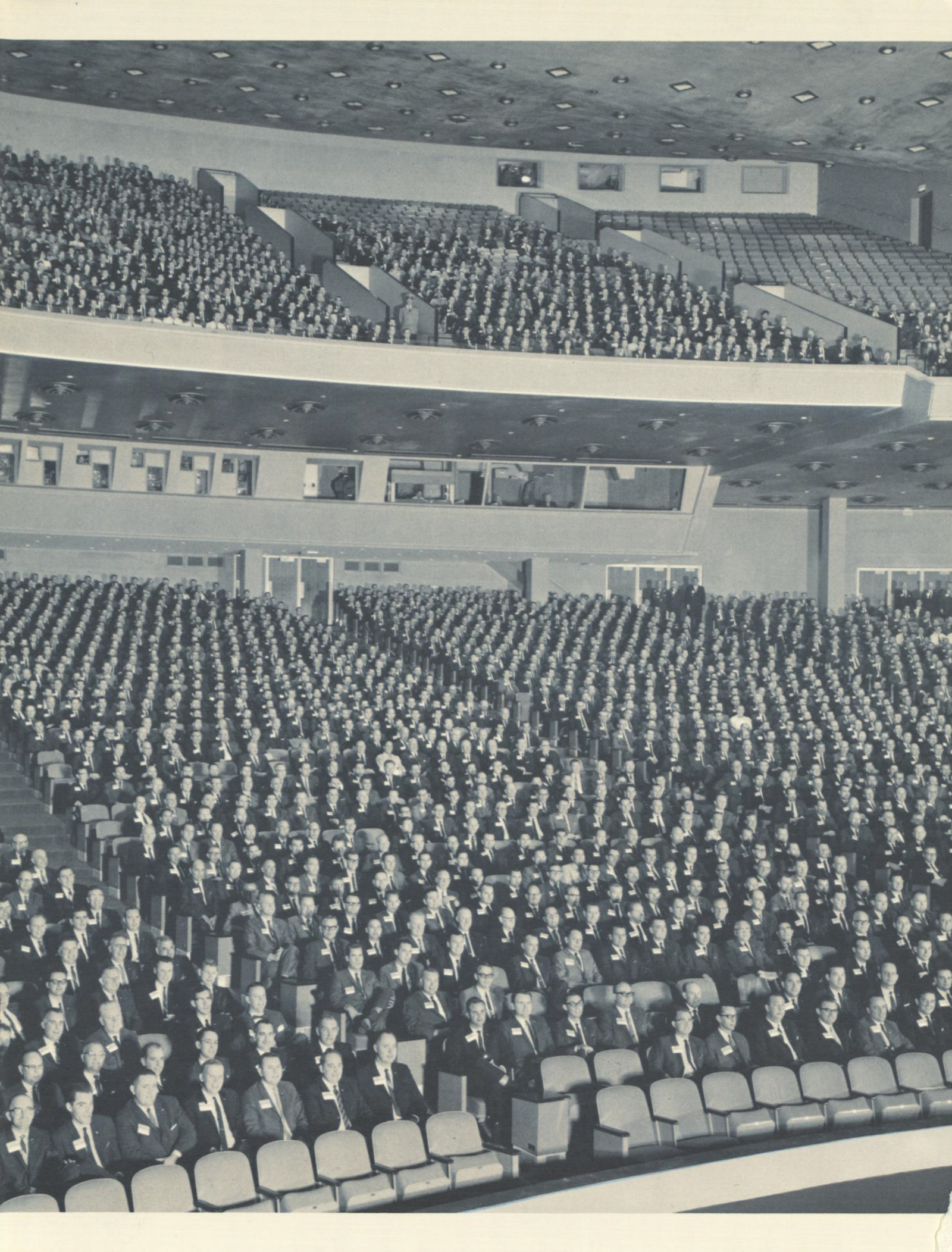
Earlier in the year, the Kraft annual international marketing conference held in Switzerland was highlighted by the first commercial use of the Early Bird satellite which enabled executives in New York to talk via television with the conference in Europe. At the same time, television commercials were beamed to the meeting to indicate the growing unification of our marketing operations and to suggest the future possibilities of world-wide telecasting of our product advertising.

Sealtest Foods Division likewise held a series of marketing conferences during the year on national, regional and local levels to acquaint all marketing personnel with the campaigns designed to promote its product lines in the United States and Canada. Advertising of ice cream and dairy products during 1965 involved a selective pattern of television and radio spots and regional editions of major magazines, while a program of Hi-Fi color spectaculars, unprecedented in range and in scope in newspaper advertising, was market tested for use in 1966.

Other divisions—HumKo Products, Sugar Creek Foods—advertised and promoted their product lines in media directed to special institutional and industrial markets, while the Breakstone Foods Division used radio and local television spots, newspaper and poster advertising, to promote its dairy products along the Eastern seaboard.

Probably the largest marketing meeting ever held in the food industry is shown in this photograph taken at the Kraft Foods Division meeting in November. Over 3,800 people from marketing operations in the United States, Canada and eighteen other countries attended the Conference in Chicago.





GROWTH IN MEXICO AND BELGIUM

As markets for processed, packaged foods continued to expand outside of the United States, additional capacity and a broader product base was provided for our international business with the acquisition of leading food processors in Mexico and Belgium.

In May, 1965, Industrias Carracedo, S.A., joined the operations of the Company's subsidiary which produces and distributes Kraft food products in Mexico. A manufacturer of margarine, cheese, butter and other dairy and food products, with a modern plant in Mexico City, Industrias Carracedo serves the growing retail grocery trade in supermarkets, as well as institutional and industrial customers.

Fromagerie Franco-Suisse, S.A., a Belgian manufacturer of a variety of packaged, processed cheese products and convenience food specialties became a subsidiary of the Company in December, 1965. From a large food processing facility in Brussels, its products are supplied to retail food stores and institutional customers from distributing branches in major cities in Belgium and to its export trade in other European markets.

These new businesses bring to our international operations additional modern processing facilities as well as product lines with strong consumer franchises and together with the new plants in Venezuela and the Philippines further expand our Kraft Foods business in world markets.

LITIGATION

In the 1959 antitrust case (Kansas City), the Company has petitioned the U. S. Supreme Court to review the adverse decision of the U. S. Circuit Court on the Company's appeal. This case was mentioned in the last annual report and the proceedings in the treble damage suits against the Company based on these alleged antitrust violations are still suspended pending appellate review. The indictment and civil suit brought by the Government in Baltimore, relating to alleged antitrust violations in connection with fluid milk sales in that area, are still pending.

Appeals to the Federal Trade Commission from the hearing examiners' rulings in the 1957 case alleging price discrimination in the sale of milk in certain other markets and in the 1962 case alleging price discrimination in the sale of jelly, marshmallow topping and yogurt have been argued and are awaiting decision.

The Company and nine other dairy concerns are among the defendants named in an antitrust suit brought in December, 1965, charging conspiracy to fix prices in the sales of milk in Miami and South Florida. The Company has entered a plea of not guilty and the case is pending in the Federal District Court. In addition, other litigation of the nature usual to companies operating similar businesses, and various governmental investigations are also pending. Further comments regarding the significance of legal proceedings appear in the "Notes to Consolidated Financial Statements," on page 19.

MANAGEMENT

At the November, 1965 meeting, your Board of Directors elected J. Huber Wetenhall, who had been President of National Dairy since 1959, to the position of Chairman of the Board. In that office he will continue as chief executive officer of the Corporation.

At the same time Gordon Edwards was elected by the Directors to succeed Mr. Wetenhall as President. Mr. Edwards has been associated with the Company since 1927 and served in several of its operating Divisions in major executive positions before becoming President of our Kraft Foods Division and a Vice President of the Corporation in 1964. He has been a Director since 1962.

At the same meeting, two new Directors were elected by the Board, William O. Beers and John R. Edwards, both of whom also became Vice Presidents of the Corporation. Mr. Beers, who had been a Vice President of the Kraft Foods Division in charge of our extensive overseas business, succeeded Gordon Edwards as President of the Division in November; while John R. Edwards, who had been a Vice President of the Sealtest Foods Division, became its President succeeding Dr. C. R. Roberts.

Dr. Roberts retired on November 1st as a Vice President of the Corporation and President of Sealtest Foods after more than forty years of service in our milk and ice cream business. During his long and distinguished career, Dr. Roberts made an important and lasting contribution to the progress of these operations and to the growth of National Dairy.

At the Annual Stockholders' Meeting in April, 1965, Robert L. Talbot was elected a member of the Board of Directors. A Vice President since 1963, Mr. Talbot had served the Company for ten years in various positions of financial responsibility.

Dr. Raymond H. Hartigan was appointed President of the Company's Research and Development Division in December. A Vice President of the Division since last March, Dr. Hartigan was previously head of research at Rensselaer Polytechnic Institute. He had served in responsible research positions in industry and in earlier years was Director, Research Division, of the Mellon Institute.

In his new position, Dr. Hartigan succeeds Dr. Arnold H. Johnson, who retired December 1st with an exceptional record of over thirty-five years of loyal and valuable service during which he earned an enviable reputation in all aspects of food technology.

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 25, 1965	December 26, 1964
CURRENT ASSETS:		
Cash	\$ 26,335,851	\$ 26,261,619
U. S. Government and other short-term securities at cost, not in excess of market	90,746,680	87,583,811
Notes and accounts receivable	121,814,759	112,070,171
Inventories, at lower of average cost or market—		
Products and materials	230,377,675	222,976,268
Supplies	20,550,519	18,778,152
Total Current Assets	<u>\$489,825,484</u>	<u>\$467,670,021</u>
 PROPERTY, PLANT & EQUIPMENT, at cost:		
Land	\$ 19,885,543	\$ 19,873,031
Buildings	223,358,790	221,350,945
Machinery and equipment	400,595,374	392,047,657
	<u>\$643,839,707</u>	<u>\$633,271,633</u>
Less—Accumulated depreciation	312,973,468	301,135,709
	<u>\$330,866,239</u>	<u>\$332,135,924</u>
 OTHER ASSETS:		
Miscellaneous investments and receivables	\$ 10,338,503	\$ 7,743,299
Prepaid and deferred items	3,515,560	3,852,752
Intangibles (See note)	18,106,414	13,227,495
	<u>\$ 31,960,477</u>	<u>\$ 24,823,546</u>
	<u>\$852,652,200</u>	<u>\$824,629,491</u>

(See Notes to Consolidated Financial Statements, pages 19 and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION
INCLUDING FOREIGN SUBSIDIARIES



LIABILITIES AND STOCKHOLDERS' EQUITY

	December 25, 1965	December 26, 1964
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$138,362,262	\$128,528,252
Provision for Federal and foreign taxes on income	41,155,083	42,385,007
Sinking fund requirements, less long-term debt held in treasury (\$3,783,456 in 1965 and \$3,803,806 in 1964)	1,306,888	141,850
Total Current Liabilities	<u>\$180,824,233</u>	<u>\$171,055,109</u>
 LONG-TERM DEBT (See note)	 <u>\$ 89,321,584</u>	 <u>\$ 95,638,147</u>
OTHER:		
Deferred taxes on income	\$ 11,289,567	\$ 13,874,825
Reserves for insurance, etc.	3,882,383	4,228,932
Minority interest in subsidiaries	1,095,369	1,193,812
	<u>\$ 16,267,319</u>	<u>\$ 19,297,569</u>
 CONTINGENT LIABILITIES (See note)		
 STOCKHOLDERS' EQUITY:		
Common stock, \$5 par value (authorized 16,000,000 shares; issued 14,548,930 shares at December 25, 1965 and 14,494,087 shares at December 26, 1964)	\$ 72,744,650	\$ 72,470,435
Capital surplus (See note)	41,734,127	39,414,088
Retained earnings (at December 25, 1965, \$60,430,000 restricted as to payment of dividends under indentures)	458,992,224	426,754,143
	<u>\$573,471,001</u>	<u>\$538,638,666</u>
Less—Treasury stock (80,900 shares) at cost (See note)	7,231,937	—
Stockholders' equity	<u>\$566,239,064</u>	<u>\$538,638,666</u>
	<u>\$852,652,200</u>	<u>\$824,629,491</u>

(See Notes to Consolidated Financial Statements, pages 19 and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION
INCLUDING FOREIGN SUBSIDIARIES



CONSOLIDATED STATEMENTS OF INCOME

52 Weeks Ended

INCOME:	Dec. 25, 1965	Dec. 26, 1964
Net sales	\$2,017,280,201	\$1,919,944,881
Other income	9,556,799	8,919,809
Total	<u>\$2,026,837,000</u>	<u>\$1,928,864,690</u>
 COSTS AND EXPENSES:		
Cost of products	\$1,520,748,314	\$1,439,871,454
Delivery, selling, and administrative expense	370,928,464	359,581,682
Miscellaneous charges (net)	2,620,312	1,701,624
Interest on long-term debt	3,483,280	3,759,111
Total	<u>\$1,897,780,370</u>	<u>\$1,804,913,871</u>
 INCOME BEFORE FEDERAL AND FOREIGN TAXES	\$ 129,056,630	\$ 123,950,819
Provision for Federal and foreign taxes on income	<u>59,155,000</u>	<u>60,167,000</u>
 NET INCOME FOR THE YEAR	<u>\$ 69,901,630</u>	<u>\$ 63,783,819</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

52 Weeks Ended

	Dec. 25, 1965	Dec. 26, 1964
Balance at beginning of fiscal year	\$ 426,754,143	\$ 397,699,685
Net income for the year	69,901,630	63,783,819
	<u>\$ 496,655,773</u>	<u>\$ 461,483,504</u>
Dividends on common stock—\$2.60 per share in 1965 (\$2.40 in 1964)	37,663,549	34,729,361
Balance at end of fiscal year	<u>\$ 458,992,224</u>	<u>\$ 426,754,143</u>

(See Notes to Consolidated Financial Statements, pages 19 and 20.)

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

52 Weeks Ended

SOURCE OF FUNDS:

	Dec. 25, 1965	Dec. 26, 1964
Net income for the year	\$ 69,901,630	\$ 63,783,819
Non-cash charge—Depreciation	38,221,794	37,897,166
Sale of common stock under options	2,594,254	2,475,962
	<u>\$110,717,678</u>	<u>\$104,156,947</u>

APPLICATION OF FUNDS:

Dividends paid on common stock	\$ 37,663,549	\$ 34,729,361
Property, plant and equipment additions (net)	36,952,109	40,592,944
Reduction of long-term debt (net)	6,316,563	13,432,991
Treasury stock acquired (net)	7,231,937	—
Intangibles, miscellaneous receivables, etc.	<u>10,167,181</u>	<u>1,185,176</u>
	<u>\$ 98,331,339</u>	<u>\$ 89,940,472</u>
Increase in Working Capital	<u>\$ 12,386,339</u>	<u>\$ 14,216,475</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ... Dec. 25, 1965

Proposed Stock Split

Information concerning the proposed two-for-one stock split is set forth on page 5 of this Report.

Treasury Stock

During 1965 the Company purchased 103,900 shares of its common stock for general corporate purposes, 23,000 shares of which were used in connection with an acquisition.

Intangibles

Intangibles represent the excess of the purchase prices paid over the net book values of the tangible assets of certain businesses acquired since 1955. The Company does not now intend to amortize items carried in this account.

Contingent Liabilities

Substantial amounts are involved in various legal proceedings in which the Company is a defendant. It is not feasible to predict or determine the outcome of these proceedings, the adjustments in operations which adverse decisions might require or the ultimate liabilities, if any, which might result, but it is believed that the outcome would not materially affect the Company's consolidated financial position or operations.

Employees' Stock Options

Under the Employees' Stock Option Plan approved in 1952 and amended in 1958, there were 223,243 shares of common stock reserved at December 25, 1965, for sale to key employees (including officers) under op-

tions granted prior to that date. No further options may be granted under the Plan. At year end, 985 employees held such options, granted at prices ranging from \$36.10 to \$74.25 per share, with an aggregate purchase price of \$13,055,387. Options become exercisable in cumulative periodic installments and in 1965 options covering 40,767 shares became exercisable, having an aggregate purchase price of \$2,153,430. During the year 54,843 shares were issued under this Plan and the proceeds, \$2,594,254, were credited to the common stock and capital surplus accounts.

On April 15, 1965, the stockholders approved the 1965 Stock Option Plan and reserved 250,000 shares of common stock for options which may be granted prior to April 16, 1970. In January 1966, options to purchase 89,720 shares at \$82.85 per share were granted under this Plan to 658 employees. These options are exercisable in cumulative periodic installments from January 1967 to January 1971.

Company Pension Plans

The Company and its subsidiaries have various types of pension plans. The unfunded past service costs of such plans are estimated to be \$25,000,000 at December 25, 1965, and the cost of such pension plans, including amortization of unfunded past service costs, for the year 1965 was \$7,905,000. The Company also makes contributions to joint industry and union plans for certain employees not included in the Company plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS... Dec. 25, 1965

Incentive Compensation Plans

Under profit incentive compensation plans of domestic and foreign divisions, key employees earned approximately \$7,839,000 for 1965 and \$6,945,000 for 1964. In 1965 these plans covered 2,223 employees, none of whom received as much as 1% of the total.

No executive officer or director of the Company participates in these plans.

Capital Surplus

The increase of \$2,320,039 represents the excess of consideration received over the par value of shares issued under the Employees' Stock Option Plan.

Long-Term Debt

The following tabulation excludes current sinking fund requirements and maturities shown in current liabilities. Debentures held in treasury in excess of current sinking fund requirements are also excluded.

NATIONAL DAIRY PRODUCTS CORPORATION

	Dec. 25, 1965	Dec. 26, 1964
2 ³ / ₄ % Debentures due 1970	\$17,638,000	\$20,642,000
3% Debentures due 1970	10,102,000	12,207,000
3 ¹ / ₈ % Debentures due 1976	15,503,000	17,784,000
4 ³ / ₈ % Debentures due 1992	34,300,000	35,000,000
6 ¹ / ₂ % Bank Note renewable to 1970 (Belgium)	3,300,000	—

FOREIGN SUBSIDIARIES

5% Debenture Stock due 1975 of English subsidiary	3,360,000	3,500,000
6 ³ / ₄ % Debenture Stock due 1975 of English subsidiary	4,200,000	4,200,000
5% Mortgage Debenture Stock due 1968 of Australian subsidiary ..	918,584	1,071,197
4% Mortgage Bonds due 1966 of Canadian subsidiary	—	1,233,950

Total per Consolidated Balance Sheets	<u>\$89,321,584</u>	<u>\$95,638,147</u>
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All of the issues of long-term debt shown above, except the 6¹/₂% Note, have sinking fund or prepayment requirements, the aggregate amount of which totals \$3,992,000 for the year 1967.

AUDITORS' OPINION

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF NATIONAL DAIRY PRODUCTS CORPORATION:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) including foreign subsidiaries as of December 25, 1965, and the related consolidated statements of income, retained earnings and source and application of funds for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for 1964.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income, retained earnings and source and application of funds present fairly the financial position of National Dairy Products Corporation including foreign subsidiaries as of December 25, 1965, and the results of their operations and the source and application of funds for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.
February 24, 1966

FOREIGN SUBSIDIARIES
Other Than Canadian

STATEMENTS OF INCOME

	<i>52 Weeks Ended</i>	
	<u>Dec. 25, 1965</u>	<u>Dec. 26, 1964</u>
INCOME:		
Net sales	\$201,790,912	\$180,973,558
Other income	863,584	805,833
Total	<u>\$202,654,496</u>	<u>\$181,779,391</u>
COSTS AND EXPENSES:		
Cost of products	\$158,527,432	\$139,880,174
Delivery, selling, and administrative expense	31,178,179	27,435,002
Interest on long-term debt	523,982	536,519
Total	<u>\$190,229,593</u>	<u>\$167,851,695</u>
INCOME BEFORE TAXES	\$ 12,424,903	\$ 13,927,696
Provision for taxes on income	4,741,669	6,662,414
NET INCOME FOR THE YEAR	<u>\$ 7,683,234</u>	<u>\$ 7,265,282</u>

STATEMENTS OF FINANCIAL POSITION

	<u>Dec. 25, 1965</u>	<u>Dec. 26, 1964</u>
Current assets	\$ 60,836,963	\$ 54,043,870
Property, plant and equipment, less accumulated depreciation	37,225,953	32,570,560
Prepaid and deferred items, etc.	1,040,856	1,091,071
	<u>\$ 99,103,772</u>	<u>\$ 87,705,501</u>
Current liabilities	\$ 30,308,318	\$ 27,382,910
Long-term debt	8,478,584	8,771,197
Reserves	2,171,431	2,012,249
	<u>\$ 40,958,333</u>	<u>\$ 38,166,356</u>
Net tangible assets	<u>\$ 58,145,439</u>	<u>\$ 49,539,145</u>

TEN YEAR SUMMARY

(Dollar amounts in thousands, except per share figures)

INCOME AND DIVIDENDS

	1965	1964	1963
Net sales	\$2,017,280	\$1,919,945	\$1,838,971
Income before Federal and foreign taxes on income	129,057	123,951	110,444
Net income after taxes	69,902	63,784	54,018
Dividends	37,664	34,729	31,703
Per share of common stock:			
Net income after taxes	\$4.83	\$4.40	\$3.74
Dividends	\$2.60	\$2.40	\$2.20

FINANCIAL POSITION

Cash and marketable securities	\$ 117,082	\$ 113,846	\$ 93,341
Notes and accounts receivable	121,815	112,070	105,340
Inventories	250,928	241,754	244,738
Total current assets	489,825	467,670	443,419
Total current liabilities	180,824	171,055	161,021
Working capital	309,001	296,615	282,398
Property, plant and equipment (net)	330,866	332,136	329,440
Total assets	852,652	824,629	796,721
Long-term debt	89,322	95,638	109,071
Stockholders' equity	566,239	538,638	507,107
Per share of common stock	\$39.13	\$37.16	\$35.13

STATISTICAL INFORMATION

Capital expenditures	\$ 37,767	\$ 45,450	\$ 42,667
Depreciation charged during the year	38,222	37,897	36,955
Total taxes—income, property and other	82,636	83,299	79,798
Per share of common stock	\$5.71	\$5.75	\$5.53
Interest on long-term debt	3,483	3,759	4,129
Payroll	280,983	274,546	271,908
Average number of employees	45,157	45,172	46,432
Number of stockholders at year end	68,762	69,073	68,682

*NOTE: Foreign subsidiaries, other than Canadian, not included prior to 1958.

NATIONAL DAIRY PRODUCTS CORPORATION
INCLUDING FOREIGN SUBSIDIARIES*



1962	1961	1960	1959	1958	1957	1956
\$1,820,538	\$1,790,834	\$1,667,176	\$1,605,725	\$1,548,386	\$1,432,319	\$1,352,878
104,478	101,526	101,947	98,462	90,491	83,758	76,467
51,303	50,211	50,667	49,362	45,456	44,058	41,717
29,411	28,536	28,177	27,317	24,973	24,892	23,844
\$3.57	\$3.51	\$3.59	\$3.51	\$3.27	\$3.18	\$3.02
\$2.05	\$2.00	\$2.00	\$1.95	\$1.80	\$1.80	\$1.75
\$ 89,551	\$ 27,747	\$ 43,297	\$ 62,498	\$ 61,936	\$ 73,253	\$ 73,470
97,155	95,180	87,998	78,710	76,456	65,841	65,948
238,713	262,197	224,587	194,213	181,584	146,417	150,135
425,419	385,124	355,882	335,421	319,976	285,511	289,553
156,883	170,667	146,638	140,992	131,456	118,383	116,719
268,536	214,457	209,244	194,429	188,520	167,128	172,834
326,603	317,799	298,103	290,242	276,815	239,676	221,117
774,267	726,173	670,343	642,082	610,476	535,268	512,261
116,599	81,808	84,178	87,886	91,673	88,900	92,150
482,467	458,455	428,026	403,855	375,013	341,576	321,353
\$33.57	\$32.05	\$30.33	\$28.73	\$26.99	\$24.67	\$23.27
\$ 49,235	\$ 51,327	\$ 44,425	\$ 48,568	\$ 49,950	\$ 51,284	\$ 41,188
35,946	34,378	32,771	31,788	30,636	27,917	26,285
75,542	72,087	71,490	66,938	61,502	54,373	49,708
\$5.26	\$5.04	\$5.07	\$4.76	\$4.43	\$3.93	\$3.60
3,711	2,598	2,737	2,803	2,943	2,735	2,813
273,263	272,159	262,013	256,331	255,602	244,558	233,491
47,596	48,822	47,943	48,809	50,482	46,332	46,496
69,727	69,993	69,940	69,708	68,681	68,364	66,478



OFFICERS

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President

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Vice President

WILLIAM O. BEERS
Vice President

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Vice President

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Secretary

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Assistant General Counsel

KENNETH B. FISHPAW
Comptroller

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L. J. ZIMMERLEIN
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I. L. OLSON
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Assistant Secretary

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Assistant Secretary

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GORDON EDWARDS, Chairman

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J. HUBER WETENHALL

Transfer Agent

MANUFACTURERS HANOVER TRUST COMPANY
New York, New York

Counsel

SULLIVAN & CROMWELL

Registrar

THE CHASE MANHATTAN BANK
New York, New York

Auditors

ARTHUR ANDERSEN & CO.

PRINCIPAL OPERATING DIVISIONS

KRAFT FOODS

... operates many modern food processing plants and distributing centers in the United States, geographically located to give efficient service to customers in all trade channels throughout the country. Kraft Foods also manages the major part of our international food business, which has facilities in Canada, Great Britain, West Germany, Belgium, Australia, New Zealand, Venezuela, Mexico, the Philippines and other countries, producing and distributing a great variety of food products. United States, Canadian and overseas operations export to markets in other countries. Long famous for cheese, Kraft Foods has steadily diversified its product lines and today markets a wide range of food products which are to be found in all types of food outlets. This Division does an extensive business with the food-service industry, including restaurants, schools, institutions, in-plant cafeterias and similar customers and also produces a number of ingredient products used by the baking industry and other food processors.

SEALTEST FOODS

... conducts the Company's dairy business, producing a full line of fluid milk, cream and milk specialties. Sealtest ice cream and other frozen specialties and cottage cheese in many varieties are produced and distributed in the United States and Canada. This Division also distributes orange juice, fruit beverages and other food products. Sealtest Foods delivers to homes, food stores, restaurants and institutional customers from the Atlantic Coast to the Rocky Mountains and in Puerto Rico. Dominion Dairies in Canada processes and sells both Dominion and Sealtest brands in the Provinces of Ontario and Quebec. Through its Sheffield Chemical operation, Sealtest Foods also produces milk proteins, chemical intermediates and various ingredient products. BREYER ... the long-established and ever popular Breyers brand of ice cream products is manufactured and distributed from Connecticut through the mid-Atlantic states to Virginia in a wide variety of retail outlets.

BREAKSTONE FOODS

... does an extensive business in cottage cheese, cream cheese and cultured milk products, under the Breakstone and Temp-Tee brands. From its plants and branches, Breakstone Foods' products are delivered by refrigerated transport to major markets along the eastern seaboard from Maine to Puerto Rico.

HUMKO PRODUCTS

... makes a variety of edible oils and shortenings for the food industry and for consumer markets, operating large modern refineries in Memphis, Tenn., Champaign, Ill., and Buena Park, Calif. HumKo also produces and markets a wide range of high-quality industrial fatty acids and chemicals which have many applications in other industries. Its products are generally distributed throughout the United States.

METRO GLASS

... manufactures glass containers for use in the food, beverage, drug, chemical, cosmetics, household products, and other trades. Its principal plants are located in the heavily industrialized areas of New York City, Pittsburgh, and Chicago.

SUGAR CREEK FOODS

... is a leading producer of quality butter, churned and packaged at plants in mid-Western dairy centers and sold under Sugar Creek, Sealtest, and other brands. It also produces ice cream mix and flavor bases for soft drinks and syrups.

RESEARCH AND DEVELOPMENT

... the Research Center, located at Glenview, Ill., conducts the extensive research programs of National Dairy. This large, modern facility, staffed and equipped for basic and applied research, works with the operating Divisions of the Company in the development of new and improved products and processes, technological studies and important long range projects.

NATIONAL DAIRY PRODUCTS CORPORATION

260 MADISON AVENUE • NEW YORK, N.Y. 10016

